APPENDIX 1 TO PART 6

MONTANA TAX STUDY

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MONTANA TAX STUDY

APPENDIX 1 TO PART SIX

MONTANA PROPERTY TAX ASSESSMENT PROBLEMS

by

Howard H. Lord
Member, Montana Board of Equalization

A staff paper submitted through the Tax Study Task Force to the Montana Legislative Council Subcommittee on Taxation.

Members of the Task Force of Economists:

William D. Diehl, Ph. D.
Howard H. Lord
Maurice C. Taylor
Layton S. Thompson, Ph. D.
Robert F. Wallace, Ph. D.
John H. Wicks, Ph. D.
Robert W. Worcester

Members of the Subcommittee on Taxation:

Sen. Carl Rostad, Chairman
Rep. Thomas Judge, Secretary
Sen. Kenneth Cole
Sen. Edward Dussault
Rep. James R. Felt
Rep. Harold Gerke
Sen. William R. Mackay
Rep. Ray J. Wayrynen

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Guidelines From Other Tax Studies:

Following the advice of Justice Holmes: "a page of history is worth a volume of logic," this analysis begins by quoting from the conclusions of the 1963 report of the Advisory Commission on Intergovernmental Relations.[1] The Advisory Commission report reflects not only the experience of a committee of recognized experts in property taxation, but also several earlier and contemporary studies.[2] Based on the historical record of property tax administration in the United States, the Advisory Commission made the following recommendations under the heading "Reconditioning the Tax Laws," and sub-head "Need for a Manageable Tax Structure":

"Recommendation No. 1. Each state should take a hard, critical look at its property tax law and rid it of all features that:

(a) are impossible to administer as written,
(b) whose effective administration would be economically intolerable,
(c) which force administrators to condone evasion, and
(d) which encourage taxpayer dishonesty.

To protect the integrity of its tax system, no state should retain in its property tax base any component that it is unwilling or unable to administer with competence."

"Recommendation No. 2. To give legislatures and governors flexibility and responsibility for producing and maintaining equitable, productive, administrable property tax systems, constitutions should be divested of all details that obstruct sound utilization and administration of the property tax.

"Recommendation No. 3. No new changes in the property tax system, whether by exemption or classification, should be undertaken without weighing the effect on facility of administration, and where administration has been needlessly complicated by such changes in the past, the defects should be eliminated wherever it is feasible to do so.

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1 The Role of the States in Strengthening the Property Tax, Vol. 1, Advisory Commission on Intergovernmental Relations, June 1963.

2 (1) Report of the Committee on Model Property Tax Assessments and Equalization Methods on Property Tax Policy, National Tax Association, September 1964.
(2) First Interim Report of the Committee on Model Property Tax and Equalization Methods, Proceedings of the National Tax Association, 1961, pp. 434-435.
(3) Report of Committee on Model Property Tax and Equalization Methods, Proceedings of the National Tax Association, 1962, pp. 320-324.
(4) Report of Committee on Model Property Tax Assessment and Equalization Methods, Proceedings of the National Tax Association, 1963, pp. 541-544.

"Recommendation No. 4.* * * In the instance of any class of self assessed personal property, unless the local assessor is given adequate means to audit the declarations of the taxpayers, the property should be assessed by the state <u>or the tax on such property abolished</u>." (Emphasis supplied)

Under the heading "Organizing for Effective Assessment Administration" the report states:

> "By far the most difficult and decisive function in the administrative process is the assessment of property for tax purposes. The conduct of this function is acceptable only when there is reasonable uniformity of assessment in all assessing districts throughout a State, both within and among all classes of taxable property."

The Committee of the National Tax Association on Model Property Tax Assessment and Equalization Methods, reporting in 1964, made the following comments:

1. "We endorse continued professionalization of the assessment function and the development of assessment units large enough to support effective performance of that function."

2. "'At the very least . . . state authorities should be enabled to provide local assessors with increased technical and legal assistance and should be given greater authority to issue directives having the force of law.'"

3. "'The (former) Model Tax Plan proposed either the exemption of intangible personalty from ad valorem taxation, or alternatively and minimally the adoption of special treatment for intangible personalty.' We see no basis in subsequent experience for differing with that recommendation."

4. "Often tangible personal property not used for business purposes is entirely or largely exempt."

5. "The application of the property tax to household goods is clearly on the decline. Such property is fully exempt in 18 states, fully taxable in 8, and subject to local option or various kinds of exemption in the other 24 states." Assessment of this category of personalty is seldom well done. ... This committee recommends abandonment of household personalty as a part of the property tax base."

6. "Machinery and similar equipment may appropriately be subject to continued ad valorem taxation with either central assessment or local assessment coupled with a strong program of technical assistance by the state taxing authority."

7. "On theoretical, equitable, and administrative grounds, the taxation of merchants' and manufacturers' inventories ad valorem is a sore spot in existing taxation of business personalty. ... Inventories are movable and subject to control for tax minimization purposes. Due to the economic nature of inventories, they make, even when accurately appraised, an undesirable subject of ad valorem taxation from the standpoint of equity and equality of treatment.'"

The foregoing comments by a committee of recognized experts in property taxation, with nationwide experience, have been presented for the following reasons:

1. They are significant and pertinent to the property tax administrative problem areas designated by Joint Senate Resolution No. 9 of the 1965 Legislative Session which prompted the 1966 Montana Tax Study.

2. They set up a background against which Montana property tax laws and administration can be viewed with perspective.

3. They are pertinent to the most serious Montana property tax administrative problems as revealed by the 1966 Montana Tax Study.

Scope of Study:

The Scope of this study of property taxation in Montana can be seen by reading the foregoing Table of Contents. As the title indicates, it is a study of property tax assessment problems.

In Parts I and II an attempt is made to set up guidelines, against which to judge Montana property tax assessment from the standpoint of the adequacy of the existing laws and assessment procedures to achieve an acceptable degree of equity within each kind of property and in comparison with other kinds of property.

Parts IV and V consist primarily of a descriptive analysis of the assessment of different kinds of property with emphasis on the assessment of personal property. In the case of those kinds of personal property where the greatest assessment problems seem to exist, an attempt is made to measure the extent of inequalities statistically.

Part VI is a comparative evaluation of the suitability of different kinds of personal property for property taxation.

Parts VII and VIII consist of an analysis of the Montana Property Classification Law, with suggested changes aimed primarily toward achieving improved uniformity and equity in property tax assessment.

Part IX suggests some procedures for improving the qualification of assessment personnel.

Future Use of the Property Tax in Montana:

In 1964 the property tax provided nearly 60 percent of all tax revenue raised in Montana. More than 90 percent of this was from local levies for schools, counties, cities and towns. Forty percent of combined state and local revenue was used for elementary and high schools. In view of the probable continuation of joint state and local participation in school financing, it is evident that state and local taxation is and will continue to be inextricably bound together.

As a prelude to a review of problems connected with the taxation of property in Montana, it seems fitting to appraise briefly the probability of this tax continuing as a major source of revenue to Montana counties and school districts. Such an appraisal can be made by listing and evaluating some of the more important arguments for and against continuing to make major use of the property tax in Montana.

Evaluation of Arguments Against the Property Tax:

1. "Property is a poor measure of benefits received." This is not a pertinent criticism in Montana since the property tax is used primarily for the support of schools where it is generally held to be in the public interest for all children to receive an equal educational opportunity regardless of the contribution of the parents to the support of the schools.

2. "The property tax is not a good measure of ability to pay." In practice, the effectiveness of the property tax in levying upon all property varies from a high in the case of tangible immovable property, such as real estate, to a lower level in the case of movable personal property, such as jewelry, household goods and merchants' inventories, to a very low level in the case of intangibles, such as money, accounts receivable, stocks, bonds, etc. Valuable possessions having "ability to pay" such as a man's earning ability acquired through education and experience is not subject to the property tax. In modern society much ability to pay comes from property not being reached and impractical to reach by the general property tax.

This is a valid criticism. It can be overcome to some extent by:

(a) A balanced tax structure that would tap taxpaying ability that the general property tax cannot effectively reach.

(b) A change in the Montana Constitution that would permit eliminating from the property tax those kinds of property that cannot be effectively taxed or that should not be taxed.

(c) Improving administrative procedures so that property subject to the tax is assessed uniformly in proportion to its ability to pay.

3. "The property tax is a deterrent upon Montana's economic prosperity." This argument assumes that property taxes do one or a combination of three things. Either they (a) keep beneficial industry from coming into the state, (b) retard the expansion of industry already in the state, or (c) cause resources to be used in ways less conducive to economic prosperity than would be the case if the tax did not exist or was distributed differently.

While this argument undoubtedly has some validity, the economic effects of the property tax are difficult to measure. Unless property taxes were much greater on certain types of property than on others, or much higher in Montana than in other states, it seems logical that other considerations might over-shadow taxes in determining the allocation of resources to the state and within the state.

4. The property tax is a fixed amount to be paid annually while the income from much Montana property is uncertain as to time and amount. This creates a problem in forest land taxation where a crop is harvested only once in a lifetime and many hazards, including fire and the market, make income uncertain. It is also a problem to owners of semi-arid, dry-tillable and grazing lands. Prolonged drought may for many years reduce the productivity of these lands substantially below their long time average expected productivity upon which assessed values are based.

Evaluation of Arguments for the Property Tax:

Items listed under this heading, in some instances, might more properly be regarded as expediencies conducive to continued dependence on the property tax. As such they contribute as much to a prediction of the future use of the tax as if they were sound arguments.

1. A sound reason for not changing the property tax on real estate is that much property has been bought and sold at prices that took the historical level of taxes into account. Radical change in a real estate tax of long standing either has the effect of confiscating part of the owner's equity or handing over part of the government's equity to the owner.

2. The property tax has many fiscal virtues. It produces a large, dependable and relatively predictable amount of revenue.

3. The property tax is adapted to local use, hence is compatible with the aims of those who desire home rule, as opposed to state control.

4. Alternative taxes are imperfect. A rational decision on how and what to tax must be based upon the relative merits and demerits of alternative taxes.

5. While the present heavy dependence on the property tax as now legally constituted and administered may be difficult to defend, with proper modifications and as a part of a properly balanced tax structure it could be a very useful tax.

6. Historically there has been much political opposition to alternative taxes and to modifications in the property tax.

After weighing the above considerations it seems safe to predict that Montana counties, cities and school districts will continue to rely heavily upon the property tax, and the amount of revenue collected from the property tax on real estate will not decrease in an absolute amount. This prediction leaves room for much modification of the present property tax and for greater use of alternative taxes but justifies a prodigious effort to improve the property tax.

The practical problem in improving the property tax is to assess all of that property that can and should be assessed uniformly within types of property and among counties, and to maintain an equitable relationship in the assessed value of different types of property.

HISTORICAL GUIDELINES TO MONTANA PROPERTY TAX ASSESSMENT

Assessment practices in Montana are determined by (a) the Constitution, (b) the statutes, (c) administrative orders of the State Board of Equalization, (d) the courts, and (e) the individual and collective attitudes of county assessors and county boards of equalization.

Constitutional Guidelines:

Article XII, Section 1 of the Montana Constitution states: "The necessary revenue for the support and maintenance of the state shall be provided by the legislative assembly, which shall levy a uniform rate of assessment and taxation, and shall prescribe such regulations as shall secure a just valuation for taxation of all property, except that especially provided for in this article."

Further on in the Constitution, the State Board of Equalization is charged with the duty to "... do all things necessary to secure a fair, just and equitable valuation of all taxable property among counties, between different classes of property, and between individual taxpayers." This is as far as the Constitution goes in setting up assessment guidelines.

Legislative Guidelines:

In 1891, shortly after Montana became a state, legislation was enacted specifying that all taxable property in Montana be assessed at "market value." In practice, few kinds of property in Montana have been uniformly valued at "market value" nor have different kinds of property been assessed at a uniform percentage of market value.

In 1919 the Legislature tried to make the law conform to practice by enacting a property classification act that legalized the different percentages of market value then in use as assessed value. The effective assessed value was called the taxable value. The law was evidently passed with the thought that assessed values would be moved up to market value. Such was not the case. Assessed values continued to be at varying proportions of market value.

Limitations of "Market Value":

Some of the reasons why "market value" has not been an effective and acceptable guide to assessed values are as follows:

1. Some types of property are much easier to discover than others. When assessors know that there is a very uneven discovery of a given type of property within their assessing jurisdiction they tend to value that type of property at a low percentage of market value in order to minimize the inequities.

2. Some types of property obviously have greater taxpaying ability than others. For example, a merchant with a large inventory and a slow turnover finds the property tax more burdensome than a merchant with a smaller inventory and a fast turnover. Assessors, consciously or unconsciously, subscribing to the ability to pay principle, have taken into account what they regard as inherent inequities in the property tax either by not listing all known property, or valuing at a correspondingly lower percentage of market value.

3. Over one-third of the property to be assessed has no market price because there are not enough similar items offered for sale and not enough buyers and sellers to establish a competitive market price. This includes all railroads, utilities, large manufacturing plants and even many smaller commercial enterprises. All of the inter-county property assessed by the State Board of Equalization is of this type. Approaches to value ultimately having their basis in earning capacity are the only methods available to determine an assessed value for these properties.

4. Gathering and analyzing sales data that will give an accurate indication of the true market value of any given piece of property is a technical, expensive, and time-consuming process. Until recently the Montana Legislature has never made provisions for this kind of research.

5. Market value and earning capacity or ability to pay are not in the same relationship with all types of property. Many individuals and even the Montana Supreme Court, as will be seen later, believe that a value relationship based upon ability to pay is an equitable relationship. Thus there is a possible conflict between the Montana Constitution which says assessed values shall be equitable and the statutes which say that assessed value shall be at "market value."

Judicial Guidelines:

The Montana Supreme Court recognized the limitation of "market value" in 1960 by its opinion in the case of the Yellowstone Pipeline Company vs. The State Board of Equalization. Chief Justice Harrison, in writing the opinion of the Court, stated as follows:

> "Not only this Court, but the Courts of many other states have been confronted with the problem of judging legality of assessment procedures. *** About the most that can be said is that the constitutions and statutes of all states forbid discrimination among owners of the same type of property."

Justice Harrison continued by quoting from the case of Hilger vs. Moore, 56 Mont. 146, 182 Pac. 477, which stated that the purpose of the 1919 classification statute is:

> "... to shift the burden of taxes from property, as such, to productivity, or in other words to impose the burdens of government upon property in proportion to its use, its productivity, its utility, its general setting in the economic organization of society, so that everyone will be called upon to contribute according to his ability to bear the burdens, or as nearly so as may be, and to relieve administrative officers from the apparent necessity of continuing the legal fiction of full valuation in the face of contrary facts.
>
> "The Hilger case remains in full force and effect today, and was recently affirmed by Victor Chemical Works vs. Silver Bow County (130 Mont. 308, 301 Pac.2d 730.)."

Thus the Montana Supreme Court has recognized the limitations of "market value" as a guide to equitable assessments among different types of property and has stated that the intent of our present property tax laws is, to quote again from the Hilger decision, "to impose the burdens of government upon property owners in proportion to their ... ability to bear the burdens."

Administrative Guidelines:

Over the years the Board of Equalization has issued many directives to county assessors for the purpose of obtaining equitable and uniform assessing practices. The most important of these are directives implementing the 1957 Classification and Appraisal Act. Under these, counties have been directed to classify and grade all agricultural lands according to productivity, and apply to each grade a statewide uniform schedule of assessed value. All other real estate is to be appraised at its current market value and forty percent of this amount is to be used for assessed value. The forty percent

assessed value to market value relationship was expedient at the inception of the program for several reasons: (a) it was close to the state average level of assessment and therefore minimized the impact of a uniform level of assessment on the taxable value of the various counties, and was, therefore, relatively compatible with existing legal millage limitations, and (b) the economic rental value of these properties capitalized in the same manner as income-producing property indicates an earning capacity value at least equal to forty percent of the "market value."

SIGNIFICANCE OF INEQUALITIES IN ASSESSMENT

Failure to achieve uniform levels of assessment among counties results in serious inequities in tax burdens among counties. These inequities are the result of three intercounty relationships:

1. Intercounty property such as railroads, utilities, oil pipelines, etc., are assessed as a unit by the State Board of Equalization, and the assessed values are allocated to the counties, resulting in a uniform level of assessment of these properties among counties. Counties that deviate from the prescribed uniform level in the assessment of locally assessed property must adjust their millage rates accordingly to raise a given amount of revenue. Thus, counties assessing locally assessed properties below the state-wide level of assessments take an inequitable share of the total tax payment on intercounty properties.

2. The school foundation program that distributes revenue from state taxes (in 1964-65 the state distributed to the counties 5.6 million dollars from the state income and corporation license tax, and 12 million dollars from the State General Fund) to the schools in each county, not solely on the basis of the number of pupils to be educated, but on the basis of need. The "need" being determined by the number of pupils in the county and the amount of money that a uniform levy will raise in each county. If there is not equality in assessment among the counties then the amount of money raised by a uniform levy is no measure of relative need, and the whole attempt to equalize the burden for education among the counties fails. Counties with below prescribed uniform levels of assessment receive an inequitably large share of the state aid for schools.

Each successive legislature has increased the amount of money that is distributed to the counties under the school foundation program. Thus any inequalities that exist in assessment levels become more significant with each successive legislature.

3. The statewide levy (nine mills for 1965) creates an inequitable burden on different counties unless there is uniformity both in listing property and in assessment levels.

The above three intercounty relationships not only point up the significance of unequal levels of assessment among counties, but equally important, they point out the existing incentives for each county to under-assess in relation to other counties. As long as

there are financial rewards for under-assessment or penalties for over-assessment, it is only natural that counties will be reluctant to risk assessing at a level higher than their neighbors.

ASSESSMENT OF REAL ESTATE IN MONTANA

All states have an historical record, continuing into the present, of assessment inequalities: (1) among counties, (2) among different types of property, and (3) within types of property. In the case of personal property, the inequalities arise both from inconsistence in discovery and unequal value. In the case of real estate, the problem is more predominantly unequal assessment of like property, and failure to assess property according to its relative worth as measured in some objective manner.

Many states have made considerable progress both in measuring the extent of assessment inequalities and in devising means of eliminating either the extent of the inequalities or their more serious consequences. Measuring inequalities in assessment is the first step in either eliminating the inequality or avoiding its undesirable effects.

Montana has experienced most of the assessment problems common in other states, and likewise has made some recent progress in improving the equality of assessment, especially in the case of real estate. Prior to the implementation of the 1957 Reclassification and Appraisal Act the assessment of both real estate and personal property was untenable.[3] Recognition of this fact by the members of the Legislature is no doubt what prompted the passage of the 1957 Act.

Since the Act went into effect following 1957, much progress has been made in the assessment of real estate.

Farm and Grazing Lands:

All agricultural land has been placed into four classes, i.e., irrigated, non-irrigated tillable, wild hay, and grazing; and the land within these classes has been graded according to productivity. Statewide uniform schedules of value, based on net returns from each grade of land, are in use in nearly all counties in the state.

The principal problem in carrying out the assessment program on farm and grazing lands is to get all land in its proper productivity grade. Because of the technical difficulty of accomplishing this, and the incentives for under assessment, this has not been done perfectly. Improvement in the grading of land is a continuing program of the State Board of Equalization and the counties.

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[3] See Montana Legislative Council Report No. 6, "Property Taxation in Montana," December 1960, pp. 33-34. Seventh Biennial Report of the Montana State Board of Equalization, June 1956, p. 12.

Timber Lands:

Uniform timber land classification, grading and valuation is in effect in most counties. However, in Montana, in common with many other states, a practical and defensible system of applying the property tax to timber lands has yet to be devised.

The difficulty in applying the property tax to timber land equitably as compared to other types of land arises from the following conditions:

A timber crop is harvested only once in fifty or more years. Therefore:

1. Because of risks, such as fire and diseases, there is much uncertainty about when and how much crop will be harvested.

2. There is great uncertainty concerning the market value of the timber crop when harvested or ready for market.

3. In the case of agricultural land, the assessed value is based on the net return from one year's production, and the crop itself is not usually taxed. In the case of timber land, the production accumulates on the land for usually fifty or more years. Montana tax laws require that all property be taxed. However, to tax the already accumulated production from timber land as well as the capitalized net value of the future annual growth would appear to be inequitable as compared to other land.

4. In order to have available a continuous supply of timber to support a stable timber industry, only a small part of the mature timber can be cut each year. In this circumstance, an ad valorem tax may have both the effect of accelerating the rate of harvest beyond the rate compatible with a maximum sustained yield of timber, and of taxing property that is producing little or no income.

5. Because timber grows slowly in Montana the net annual production from much Montana timber land is very small. This places a low limit on the amount that can economically be spent in assessing forest land.

Residential, Commercial and Industrial Land and Improvements:

All other real estate, including town and city lots, suburban tracts and industrial sites, and the improvements upon these types of real estate, as well as improvements on agricultural land, have been appraised at current market value. Most counties are now assessing these properties at the uniform level of 40 percent of the market value, as agreed upon by the county commissioners and county assessors associations and the State Board of Equalization.

Progress in Real Estate Assessment Under the 1957 Act:

All counties did not immediately comply with the program of equalized assessment provided for by the 1957 Act. Equalization inevitably meant that some assessments would go up and some would go down. Where assessments increased, there was sometimes resistance to increased tax burdens; where assessments went down, legal millage limitations sometimes resulted in inadequate revenue. However, there is a growing understanding on the part of taxpayers and county officials of the need for and reasonableness of equalized assessments. Also, two Montana Supreme Court decisions, one involving the acceptance of the uniform statewide schedule of values on agricultural land in Yellowstone County, and the other involving acceptance of a uniform level of appraisal for the assessment of other real estate in Lincoln County, has helped convince reluctant county officials that the State Board of Equalization has the authority and the duty to implement uniform statewide assessed values.[4] Because of these court decisions and the current attitudes of county officials, it appears hopeful that the uniform schedule of values on agricultural land and the uniform assessment to appraisal level may soon be accepted by all counties.

Much progress has been made in the classification, grading and valuation on timber lands under the 1957 Act. A committee of the county commissioners and county assessors associations is presently studying the assessment of timber land for the purpose of making still further improvement in the grading and valuation of timber lands.

Future Need for Research to Improve Assessments:

Even though much progress has been made in the assessment of real estate, much remains to be done. Both the classification of agricultural lands and the appraisal of other real estate under the 1957 Act was done by different people with different levels of competency, and different incentives in each county. Partially because of the technical difficulty of achieving uniform grading and appraisal and partially because of the incentives for under-assessment described earlier, grading and appraisal is not as uniform as it could and should be.

At the present time the State Board of Equalization has data compiled by three fieldmen--supported by their experience with the program since its inception, plus fragmentary data on actual productivity of agricultural lands, and sale value of real estate--as a source of knowledge as to the levels of assessment of real estate in the different counties.

Until 1964 the State Board of Equalization had no research facilities to conduct research into the comparative assessment levels in the different counties. The 1964 Legislature provided appropriations for a research director. It is hoped that through the combined efforts of the research director and the fieldmen that sales-assessment ratio data, productivity data, and personal property assessment data

4 State ex rel. State Board of Equalization vs. Vanderwood, 405 Pac. 2d 652 (1965). State ex rel. State Board of Equalization vs. Koch, 401 Pac.2d 765 (1965).

can be collected and analyzed on a comprehensive scale, thus providing a yardstick to measure the completeness, accuracy and uniformity of assessments in all counties.[5] Such a yardstick can be used to accomplish uniform taxation in at least four different ways:

1. It can be used as a guide to county officials so that they will know how their level of assessments compare with other counties.

2. It can be used by the State Board of Equalization in carrying out its duty to equalize assessments among counties.

3. If uniform levels of assessment cannot be achieved, the legislature could change the state school foundation program, basing state aid to counties on market value per pupil rather than taxable value per pupil.

4. The burden of a statewide levy and the collection of taxes from intercounty property could also be equalized with such a yardstick.

The remainder of this study is devoted to the study of personal property assessment and the Montana Classification Law. Emphasis has been placed on these facets of the overall assessment problem for the following reasons:

1. While a continuing program of improvement in real estate assessment is needed, the existing legal and administrative framework within which to carry out the improvement program appears to be adequate.

2. The section of Joint Senate Resolution No. 9, questioning the equitability and the administrative feasibility of the different property classes and their percentage factors, states: "Some of the laws are so unworkable that efforts are not even made locally to collect taxes under some of the classifications." This quotation appears to refer to the assessment of personal property.

3. Legislation and possible change in the Montana Constitution may be necessary to bring about a tenable solution to problems of personal property assessment.

ASSESSMENT OF PERSONAL PROPERTY IN MONTANA

While all states tax real estate, and there is no trend away from real estate taxation, many states do not tax all kinds of personal property. The following tabulation shows the number of states that wholly or partially exempted various types of property in 1962 according to the U. S. Bureau of Census:

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5 To provide the accurate market price information on real estate, legislation is needed that would require the reporting of the selling price in all real estate transactions.

Railroads	10
Non-railroad Public Utilities	4
Commercial and Industrial	5
Agricultural Personalty	9
Household Personal Property	40
Motor Vehicles	31
Intangible Personal Property	16

During 1965 both the Idaho and North Dakota legislatures passed legislation exempting additional kinds of personal property. In Montana the Constitution requires that all property be taxed. In 1964 personal property accounted for 27.58 percent of the total assessed value of the State.

There are many reasons for the trend away from personal property taxation in other states. The same reasons exist in Montana. The most serious problem in the assessment of personal property is that of achieving acceptable standards of uniformity in the discovery, enumeration and valuation of the property to be assessed. Following is a discussion of the problems of personal property taxation in Montana. Since different kinds of personal property vary in their suitability to property taxation, the different kinds are discussed separately and in the order of their all-around suitability for property taxation.

Motor Vehicles:

In 1964 motor vehicles comprised over six percent of the total taxable value of the State (see Table I), or nearly one-fourth of the taxable value of all personal property. Motor vehicles are easily discovered and listed for the reason that they must bear a license to use the highways, and easily valued because there is an active competitive market establishing value by make, model and age. Moreover, there is general agreement that motor vehicles should be taxed because: (a) some people who own a car pay little other property tax, and (b) vehicle owners derive much benefit from government in the form of highways, traffic control, etc. Many problems exist in motor vehicle taxation, but for the above reasons motor vehicles are easily listed and valued for tax purposes, and are assessed with good equity within the class as compared to other types of personal property. Present statutes exempt all new passenger automobiles from property taxation when such automobiles are applying for original application for title, unless such automobile is turned in on the January 1 dealer's inventory. This exemption creates an inequity and invites evasion by making it advantageous for dealers not to turn in a full listing of car inventories as of January 1 or avoidance by bringing into inventory just after January 1.

New passenger automobiles currently pay a sales tax based upon a percentage of FOB factory list price or FOB port of entry list price in lieu of a property tax. This revenue is earmarked for the State Highway Commission and thus provides no revenue for local governments and schools as does other types of property.

Table I. Taxable Value of Each Kind of Personal Property as a Percentage of Total County Taxable Value, 1964. (Data from the Biennial Report of the Montana State Board of Equalization, June 1964)

County	Livestock	Household Furniture	Farm Machinery	Machinery Not Farm or Mfg.	Solvent Credits
Beaverhead	21.63	2.17	3.13	1.95	.41
Big Horn	14.23	2.23	2.82	2.69	.19
Blaine	15.12	1.82	4.33	.64	.30
Broadwater	12.11	1.70	4.76	1.47	.23
Carbon	5.30	1.14	1.78	.38	.05
Carter	23.87	1.37	4.44	.91	.05
Cascade	1.78	2.26	.81	1.35	1.30
Chouteau	5.59	1.32	9.32	.17	.24
Custer	9.60	2.48	.96	1.50	.37
Daniels	7.06	2.27	8.77	.62	.96
Dawson	4.15	1.84	2.48	.47	.13
Deer Lodge	.91	1.76	.08	1.83	.66
Fallon	3.15	.39	1.04	1.48	.02
Fergus	9.81	2.51	4.69	.66	.22
Flathead	1.46	2.22	.85	3.15	.55
Gallatin	4.10	1.68	1.68	1.00	.23
Garfield	26.55	1.54	3.12	.41	.01
Glacier	2.61	.86	1.39	1.90	.11
Golden Valley	14.19	1.18	2.50	.30	.21
Granite	11.72	1.32	1.77	1.63	.21
Hill	2.58	2.51	5.05	1.07	.60
Jefferson	6.81	1.18	1.32	.92	.11
Judith Basin	11.92	1.22	5.71	.56	.30
Lake	7.68	1.70	1.51	1.84	.01
Lewis & Clark	2.63	2.40	.37	1.08	1.03

Liberty	3.26	1.51	6.53	.91	.08
Lincoln	1.36	1.70	.32	3.54	.28

Table I. (Continued)

County	Agric. Products Not Mdse.	Goods, Wares, Etc.	Furniture and Fixtures	Mfg. Machinery, Fixtures	Mining Machinery, Fixtures	Oil Drill. Rigs
Beaverhead	.02	2.69	1.41	.59	.39	.00
Big Horn	.27	3.26	.90	.60	.00	.05
Blaine	.21	1.82	.66	.88	.03	.00
Broadwater	.19	1.32	.62	.39	.24	.00
Carbon	.02	.92	.30	.45	.06	.51
Carter	.02	1.34	.23	.04	.02	.00
Cascade	.25	5.03	2.37	6.15	.01	.00
Chouteau	1.27	1.28	.34	.02	.00	.01
Custer	.01	3.70	1.35	.41	.00	.00
Daniels	2.43	3.27	.49	.01	.01	.05
Dawson	.47	4.34	1.21	.54	.00	.16
Deer Lodge	.00	2.39	1.01	17.99	.01	.00
Fallon	.05	.79	.29	3.41	.00	.54
Fergus	.37	2.82	1.10	.40	.06	.08
Flathead	.01	3.18	1.27	10.00	.01	.00
Gallatin	.16	3.63	1.30	1.13	.16	.00
Garfield	.17	.83	.21	.00	.03	.99
Glacier	.14	3.37	1.08	1.25	.00	4.81
Golden Valley	.09	.60	.14	.00	.00	.07
Granite	.00	1.17	.91	.24	.91	.00
Hill	.92	3.70	1.55	.61	.00	.00
Jefferson	.00	1.48	.65	2.40	.31	.00
Judith Basin	.34	1.27	.47	.16	.00	.00
Lake	.00	2.25	.65	7.36	.00	.00
Lewis & Clark	.01	4.18	1.68	2.41	.01	.00

Liberty	.85	1.63	.41	.54	.00	1.07
Lincoln	.00	4.55	.52	.66	2.66	.18

Table I. (Continued)

County	Bank Stock	Bank Surplus	Aircraft	Motor Vehicles	Watercraft
Beaverhead	.63	.19	.18	6.55	.04
Big Horn	.88	.14	.05	6.09	.01
Blaine	1.29	.19	.10	5.35	.01
Broadwater	.65	.11	.05	7.09	.02
Carbon	.87	.16	.03	2.88	.01
Carter	.69	.14	.11	5.14	.01
Cascade	1.39	.44	.21	7.23	.03
Chouteau	.86	.14	.08	4.50	.06
Custer	1.26	.31	.11	7.19	.02
Daniels	.72	.15	.12	7.30	.05
Dawson	1.12	.22	.06	5.71	.04
Deer Lodge	.98	.17	.01	5.21	.10
Fallon	.49	.08	.05	2.62	.01
Fergus	1.93	.25	.15	6.14	.04
Flathead	.96	.00	.04	6.00	.27
Gallatin	1.42	.30	.08	7.26	.14
Garfield	.51	.08	.10	4.65	.02
Glacier	.70	.19	.09	4.54	.02
Golden Valley	.00	.00	.02	3.68	.02
Granite	.49	.15	.01	5.98	.02
Hill	2.00	.33	.08	5.87	.03
Jefferson	.31	.03	.00	5.50	.02
Lake	1.48	.16	.01	7.23	.30
Judith Basin	.48	.09	.02	4.54	.05
Lewis & Clark	1.37	.57	.06	6.51	.18

Liberty	.81	.11	.03	5.00	.19
Lincoln	.66	.10	.08	7.95	.11

Table I. (Continued)

County	Livestock	Household Furniture	Farm Machinery	Machinery Not Farm or Mfg.	Solvent Credits
Madison	17.61	1.69	2.71	.69	.17
McCone	12.26	1.05	6.83	.21	.07
Meagher	22.08	1.28	1.92	1.59	.11
Mineral	.90	1.09	1.14	3.64	.09
Missoula	1.01	3.07	.28	1.35	1.41
Musselshell	7.85	1.48	1.33	1.97	.05
Park	7.25	2.34	1.47	1.69	.27
Petroleum	27.10	1.75	4.38	.03	.02
Phillips	15.75	1.73	4.62	.32	.23
Pondera	3.76	2.19	6.98	.21	.19
Powder River	27.71	1.74	4.45	.51	.24
Powell	8.24	1.21	1.17	1.31	.26
Prairie	12.89	1.47	4.14	.38	.20
Ravalli	8.33	2.47	2.18	.90	.09
Richland	4.89	1.24	3.39	.54	.13
Roosevelt	3.34	1.38	3.45	.36	.28
Rosebud	9.73	1.53	1.44	.38	.15
Sanders	4.18	1.23	.73	4.25	.04
Sheridan	4.62	1.92	6.72	.93	1.13
Silver Bow	.21	1.34	.03	2.90	1.88
Stillwater	10.66	2.35	4.75	1.10	.08
Sweet Grass	15.79	2.04	3.45	.62	.21
Teton	6.95	1.62	5.43	.50	.41
Toole	2.25	1.75	5.68	.65	.29
Treasure	15.05	1.58	2.81	.53	.28

Valley	8.13	2.39	4.58	1.14	.50
Wheatland	13.22	1.30	1.32	1.43	.05
Wibaux	4.94	.58	2.36	.22	.01
Yellowstone	1.93	2.45	.70	1.07	1.36
State	5.67	1.91	2.30	1.32	.62

Table I. (Continued)

County	Agric. Products Not Mdse.	Goods, Wares, Etc.	Furniture and Fixtures	Mfg. Machinery, Fixtures	Mining Machinery, Fixtures	Oil Drill. Rigs
Madison	.01	1.43	.61	.42	.11	.00
McCone	.27	1.07	.14	.00	.00	.48
Meagher	.01	2.42	.68	1.37	.04	.00
Mineral	.00	2.16	1.15	3.12	.10	.00
Missoula	.00	7.00	1.70	4.92	.00	.00
Musselshell	.04	1.95	.71	.07	.33	3.68
Park	.01	2.46	1.30	1.35	.01	.00
Petroleum	.00	1.03	.19	.07	.00	4.02
Phillips	.47	2.34	.81	.14	.05	.09
Pondera	.80	2.91	.87	.40	.00	1.65
Powder River	.11	1.31	.52	.07	.12	.14
Powell	.00	1.36	.44	.71	1.00	.00
Prairie	.05	2.56	.33	.01	.00	.69
Ravalli	.01	2.48	.92	.68	.16	.00
Richland	.26	5.04	.63	1.16	.21	.08
Roosevelt	.59	2.27	.61	.55	.00	1.65
Rosebud	.01	.92	.46	.22	.43	1.40
Sanders	.00	2.04	.59	12.43	.02	.00
Sheridan	2.12	2.17	.50	.31	.00	.20
Silver Bow	.04	1.68	.67	.83	.12	.00
Sweet Grass	.00	1.95	.78	.08	.00	.00
Teton	.42	2.02	.47	.07	.00	.73

Toole	.48	2.08	.80	1.19	.00	2.57
Treasure	.00	1.29	.45	.00	.00	.00
Valley	.91	3.49	2.15	.25	.00	.00
Wheatland	.10	1.66	.67	.44	.00	.00
Wibaux	.08	.77	.21	.01	.00	.00
Yellowstone	.04	10.18	2.05	2.32	.00	.00
State	.24	3.85	1.23	2.77	.73	.34

Table I. (Continued)

County	Bank Stock	Bank Surplus	Aircraft	Motor Vehicles	Watercraft
Madison	.81	.07	.05	4.19	.02
McCone	.75	.21	.05	5.36	.00
Meagher	.25	.16	.03	6.00	.02
Mineral	.00	.00	.01	7.09	.04
Missoula	.68	.30	.18	9.87	.05
Musselshell	.13	.07	.05	4.05	.01
Park	1.07	.22	.06	6.69	.06
Petroleum	.00	.00	.01	6.22	.01
Phillips	1.35	.11	.10	4.95	.04
Pondera	1.53	.15	.09	4.68	.13
Powder River	.90	.16	.04	6.29	.01
Powell	1.46	.30	.01	6.57	.09
Prairie	.91	.19	.02	4.70	.02
Ravalli	1.00	.22	.01	8.31	.03
Richland	2.04	.20	.08	5.52	.02
Roosevelt	1.34	.24	.12	5.33	.03
Rosebud	.26	.07	.07	2.86	.01
Sanders	.78	.16	.03	4.65	.06

Sheridan	.68	.20	.11	5.89	.04
Silver Bow	2.41	.39	.04	6.44	.05
Stillwater	1.59	.29	.09	4.94	.03
Sweet Grass	1.52	.13	.14	4.68	.03
Teton	1.07	.13	.06	4.58	.07
Toole	2.17	.24	.15	4.65	.09
Treasure	1.82	.24	.04	6.84	.01
Valley	1.26	.29	.19	6.78	.15
Wheatland	1.73	.16	.11	4.94	.03
Wibaux	.70	.10	.01	2.70	.00
Yellowstone	1.85	.36	.21	6.34	.05
State	1.24	.24	.10	5.99	.07

the full extent of the inequalities. There is no reason to believe that the variations in listings by individual taxpayers within many counties are any less variable than listings among counties since the numbers reported in most counties are based on the honor system.

This wide variation in the percentage of cattle assessed in different counties and on different farms and ranches is a serious infraction of property tax laws, and results in serious inequalities among individual taxpayers, among counties, and between owners of livestock and those types of property that are more completely assessed. This situation represents a serious breakdown in the administration of this phase of the property tax.

Various reasons have been advanced to explain the situation. County officials say that they do not have time or funds to actually go out and count the cattle, and that even if they had time any official who did so would not be returned to office. Many otherwise honest livestock owners are reluctant to turn in a full count of cattle for assessment when they know that others do not.

It is clearly the legal duty of the county assessor to assess all taxable property. During January and February preceding the March 1 assessment day, on most years, because of the necessity for winter feeding and calving, well over 90 percent of Montana cattle are in accessable locations close enough together to be counted. It is therefore possible for the assessor or his representative to count most Montana cattle. The added tax revenue to be gained by a complete listing of cattle in most counties would far more than pay the cost of counting the cattle. In practice it would be unnecessary to count all cattle every year. Counting could supplement self reporting. If all stockgrowers knew that their stock and their neighbor's stock would quite possibly be counted any year, and that full reporting was the rule, they would likely turn in a full count.

Under existing statutes (Section 84-439, R.C.M. 1947), assessors may assess property wilfully concealed by taxpayers at up to ten times its value. Invocation of this law, if applicable, should also promote full listing of livestock.

Until recently assessors could check livestock listings against recorded mortgages which revealed the number of cattle covered by the mortgage. The instrument now in use to record liens on livestock does not list the number. Assessors feel that this will make their job of assessing livestock and getting full self reporting even more difficult.

Aircraft and Watercraft

Aircraft and watercraft comprise .10 and .07 percent, respective ly of the taxable value of the State (see Table I). In no county did the 1964 combined taxable value of these kinds of property exceed .5 of one percent of the total. From a tax standpoint, aircraft and

Table II. Percentage of Assessed Cattle to Census Enumerated Cattle in Montana by Counties, 1964

County	Census[1]	Assessed[4]	Percent Assessed
Beaverhead	138,200	116,560	84.3
Big Horn	101,700	91,222	89.7
Blaine	83,200	62,005	74.5
Broadwater	33,000	28,093	85.1
Carbon	52,400	42,312	80.7
Carter	43,400	36,318	83.7
Cascade	79,300	58,073	73.2
Chouteau	55,300	44,496	80.5
Custer	76,500	59,411	77.7
Daniels	20,300	15,790	77.8
Dawson	47,600	31,060	65.3
Deer Lodge	8,700	5,823	66.9
Fallon	38,400	27,514	71.7
Fergus	104,400	82,479	79.0
Flathead	28,100	20,112	71.6
Gallatin	70,200	44,401	63.2
Garfield	57,500	43,734	76.1
Glacier[2]	35,300	16,399	46.5
Golden Valley	25,600	20,495	80.1
Granite	34,500	26,124	75.7
Hill	32,400	21,338	65.9
Jefferson	24,600	16,996	69.1
Judith Basin	54,400	45,034	82.8
Lake[2]	64,700	43,809	67.7
Lewis & Clark	43,200	35,008	81.0
Liberty	13,300	9,918	74.6
Lincoln	8,700	6,606	75.9
Madison	84,400	60,416	71.6
McCone	43,000	28,003	65.1
Meagher	56,200	45,120	80.3
Mineral	2,000	1,425	71.3
Missoula	23,000	14,495	63.0
Musselshell	33,700	28,027	83.2
Park	48,100	41,084	85.4
Petroleum	30,200	23,741	78.6
Phillips	94,300	72,160	76.5
Pondera	27,100	20,244	74.7
Powder River	66,200	54,895	82.9
Powell	50,600	33,803	66.8
Prairie	40,200	28,513	70.9
Ravalli	52,700	36,273	68.8
Richland[3]	51,200	30,126	58.8
Roosevelt[2]	39,300	25,548	65.0
Rosebud	74,000	58,689	79.3
Sanders	26,800	21,050	78.5

Table II. (Continued)

County	Census[1]	Assessed[4]	Percent Assessed
Sheridan	30,600	21,079	68.9
Silver Bow	5,200	3,516	67.6
Stillwater	46,100	37,995	82.4
Sweet Grass	44,500	39,810	89.5
Teton	54,100	40,857	75.5
Toole	16,700	11,847	70.9
Treasure	21,400	17,419	81.4
Valley	81,600	59,474	72.9
Wheatland	31,500	24,827	78.8
Wibaux	22,000	16,738	76.1
Yellowstone	102,400	78,172	76.3
TOTALS	2,674,000	2,026,476	75.8

[1] Numbers of cattle in counties on January 1, 1964, taken from Volume X of Montana Agricultural Statistics.

[2] Non-taxable Indian cattle could cause lower percent assessed.

[3] Cattle on feed may be causing low average.

[4] Data from the Biennial Report of the State Board of Equalization, June 1964.

watercraft have much in common with motor vehicles. Both derive and require special benefits from government in facilities and traffic and safety control. Aircraft and some boats must be registered. Public safety would be improved if all boats were registered and required to display a registration number. If all boats as well as aircraft were registered annually, and proof of taxes paid were required as a condition of registration, complete discovery and uniform taxation could be easily accomplished.

It seems reasonable that because of the benefits they receive from government, and because they can be uniformly assessed, both aircraft and boats should be moved up from the 20 percent taxable class to 30 percent, as proposed for motor vehicles.

Farm Machinery and Equipment

Farm machinery and equipment accounts for 2.3 percent of the total taxable value of the State. The relative importance of farm machinery in the 56 counties of the State is indicated in Table III. For the exact percent that farm machinery comprises the total taxable value in each county see Table 1.

Table III. Montana Counties Listed by Percent Farm Machinery to Total County Taxable Valuation[1]

	Wheatland				
	Rosebud				
	Park				
	Powell				
llowstone	Musselshell			Valley	Toole
lver Bow	Mineral			Stillwater	Teton
nders	Meagher			Prairie	Sheridan
ssoula	Lake	Wibaux		Powder River	Pondera
ncoln	Jefferson	Treasure		Phillips	McCone
wis & Clark	Granite	Ravalli	Sweet Grass	Petroleum	Liberty
athead	Glacier	Madison	Roosevelt	Fergus	Judith Basin
er Lodge	Gallatin	Gold. Val.	Richland	Carter	Hill
ster	Fallon	Dawson	Garfield	Broadwater	Chouteau
scade	Carbon	Big Horn	Beaverhead	Blaine	Daniels
- 1%	1 - 2%	2 - 3%	3 - 4%	4 - 5%	5% and Over

Taxable Valuation of Farm Machinery as a Percentage of Total County Taxable Valuation.

[1] Data from the Biennial Report of the Montana State Board of Equalization, June 1964

As might be expected, the ten counties where the taxable value of farm machinery is relatively unimportant are either counties with large cities, that make a sizeable taxable valuation in farm machinery seem relatively unimportant, or are such counties as Sanders and Lincoln that actually have small farm machinery valuations. All of the ten counties where farm machinery makes up over five percent of the taxable valuations are counties with much non-irrigated tillable farm land.

An effort has been made to determine the variation in (a) the completeness of discovery and (b) the level of valuation of farm machinery in the different counties. Since an actual inventory of farm machinery by farm or by county was not available such other yardsticks as are available were used. These were:

1. Assessed value of farm machinery by counties per farm of 260 acres and over, from 1959 farm census (see Table IV). There were comparatively few farms under 260 acres. It was assumed that most of these were not full time commercial farms.

2. Assessed value of farm machinery per cropped acre (see Table V).

3. Ratio of the estimated combined value of tractors, combines and hay balers, as listed in the 1959 Farm Census to the total assessed value of farm machinery by counties (see Table VI).

None of these are satisfactory indicators of levels of assessment by themselves. Together they indicate the extremes in variation. Comparisons are most valid between counties with similar types of farming. It seems safe to conclude that the combined effect of rate of discovery plus the level of valuation results in farm machinery assessment levels at least twice as high in the top twelve counties as compared to the lowest twelve counties. There is a sufficient degree of inequity among counties to prove the need for much upgrading of the procedures in the assessment of this class of property.

Table IV. Montana Counties Classified by Assessed Value of Farm Machinery[1] Per Farm of 260 Acres and Over[2]

	Treasure	Wibaux		
	Rosebud	Sweet Grass		
	Powell	Roosevelt		
	Powder River	Richland		
	Park	Ravalli		
	Musselshell	Phillips		
	Missoula	Petroleum		
	Mineral	Meagher		Yellowstone
	Madison	McCone		Toole
	Lewis & Clark	Granite		Teton
	Lake	Gallatin	Valley	Pondera
	Jefferson	Flathead	Stillwater	Liberty
Wheatland	Golden Valley	Fallon	Sheridan	Judith Basin
Silver Bow	Glacier	Dawson	Prairie	Hill
Sanders	Garfield	Cascade	Fergus	Chouteau
Lincoln	Custer	Carbon	Daniels	Broadwater
Deer Lodge	Carter	Blaine	Big Horn	Beaverhead
Under $2000	$2000 to $3000	$3000 to $4000	$4000 to $5000	$5000 and Over

[1]Data from the Biennial Report of the State Board of Equalization, June 1964.
[2]Data from the 1959 Federal Farm Census

Table V. Montana Counties Classified by Assessed Value of Farm Machinery[1] Per Cropped Acre on Farms Over 260 Acres[2]

		Wibaux		
		Treasure		
		Toole		
		Teton		
		Sanders		
	Valley	Rosebud		
	Sheridan	Powder River		
	Roosevelt	Pondera		
	Richland	Phillips		
	Powell	Petroleum		
	Meagher	Park		
	McCone	Musselshell		
	Liberty	Missoula		
	Lewis & Clark	Madison		
	Hill	Judith Basin		
	Golden Valley	Jefferson	Yellowstone	
	Garfield	Granite	Sweet Grass	
	Fallon	Gallatin	Stillwater	
	Dawson	Fergus	Prairie	
Wheatland	Daniels	Chouteau	Lincoln	
Silver Bow	Custer	Cascade	Lake	Ravalli
Glacier	Blaine	Carter	Carbon	Mineral
Deer Lodge	Beaverhead	Big Horn	Broadwater	Flathead
$5 & Under	$6 - $10	$11- $15	$16 - $20	$21 & Over

[1]Data from the Biennial Report of the State Board of Equalization, June 1964
[2]Data from the 1959 Federal Farm Census

Table VI. Montana Counties Classified by Ratio of Estimated Combined Value of Tractors, Combines, and Hay Balers <u>only</u>* to Assessed Value of <u>All</u>** Farm Machinery

1 to 2	2 to 3	3 to 4	4 to 5	5 & Over
	Yellowstone			
	Wibaux			
	Valley			
	Teton			
	Sweet Grass			
	Stillwater			
	Roosevelt			
	Powder River			
	Phillips			
	Petroleum			
	Meagher			
	McCone			
Toole	Jefferson	Sanders		
Sheridan	Granite	Rosebud		
Prairie	Golden Valley	Richland		
Pondera	Glacier	Ravalli		
Liberty	Garfield	Powell		
Judith Basin	Flathead	Park		
Hill	Fallon	Musselshell		
Fergus	Dawson	Missoula	Wheatland	
Daniels	Cascade	Madison	Treasure	
Chouteau	Carter	Lincoln	Lewis & Clark	Silver Bow
Broadwater	Blaine	Gallatin	Lake	Mineral
Beaverhead	Big Horn	Carbon	Custer	Deer Lodge

* The number of each kind of machine is from the 1959 Farm Census. The estimated value of tractors was $2000, grain combines, $4000, and hay balers $2000. This is estimated to be one-half of the current cost of these machines new. It is recognized that using the same average value for tractors and combines in all counties is unrealistic. However, the level of values used for these machines does not materially affect the relative position of the different counties.

** Data from the Biennial Report of the State Board of Equalization, June 1964.

<u>Commercial and Industrial Equipment</u>:

The kinds of personal property discussed under this heading, the percent each comprises the total taxable value of the State, and the taxable to assessed value percentage is shown in the following table.

These five classes of personal property make up 5.1 percent of the taxable value of the State.

Class of Property	% of Taxable Value of State	Taxable to Assessed Value Percentage
Furniture and Fixtures of Stores, Offices	1.77	33-1/3
Manufacturing Machinery, Fixtures	2.11	30
Mining Machinery, Fixtures & Supplies	.73	30
Drilling Rigs, Oil Equipment	.34	30
Machinery Other Than Farm Machinery or Manufacturing	.75	20

"Furniture and Fixtures of Stores and Offices" makes up 1.17 percent of the total taxable value of the State. It varies from a low of less than .5 percent in 13 counties to about two percent in four counties (see Table I). It is in the 33-1/3 percent taxable to assessed value class.

"Manufacturing Machinery, Fixtures" makes up 2.11 percent of the taxable value of the State. Its importance varies widely among the counties, amounting to less than one percent in 43 counties, but going up to 17.02 percent in Deer Lodge County, and 9.53 percent in Sanders and Flathead Counties. Except in these three counties, this class of property amounts to less than 5 percent in all counties (see Table I). It is taxed on 30 percent of its assessed value.

"Mining Machinery, Fixtures and Supplies" makes up .73 percent of the total taxable value of the State. It exceeds .5 percent in only four counties. It is of major importance only in Silver Bow County where it makes up 14.23 percent of the total taxable value of the County (see Table I). The taxable value of this class of property is 30 percent of its assessed value.

"Drilling Rigs, Oil Equipment" accounts for over one percent of the taxable value in only six counties. It was most important in Glacier and Toole Counties, where it was over four percent of the total taxable value (see Table I). The taxable value is 30 percent of the assessed value.

"Machinery Other Than Farm Machinery or Manufacturing" makes up .75 percent of the taxable value of the State. It exceeds one percent in only ten counties. The three highest counties are Flathead at 2.66 percent; Lincoln at 2.94 percent; and Sanders at 3.38 percent (see Table I). Logging equipment accounts for most of this valuation in these three counties. This property is in the 20 percent taxable to assessed value class.

The above kinds of property have characteristics in common as follows:

1. Much of this property is relatively stable in place and time within a year, and from year to year.

2. The items are large enough and few enough in number to be listed, described and valued individually.

3. They are producer goods having earning capacity. As such the cost of owning these properties is a deductible cost in computing income tax, and the tax is deductible from gross income rather than net income.

For the above reasons it appears that, compared to some other types of personal property, these kinds of property are relatively well suited to the property tax.

Agricultural Products For Sale:

This class of personal property is supposed to include all agricultural products held by farmers for sale, other than livestock. In those counties reporting this class of property, grain, the ownership of which is established by government loan records and elevator storage records, is about the only property assessed. This class makes up .24 percent of the taxable value of the State (see Table I). It is more than two percent of the taxable value in only two counties, Daniels and Sheridan; between one and two percent only in Chouteau; and less than one-tenth percent, or practically zero, in 31 counties. Table VII shows the total value of the 1963 wheat crop in 33 wheat growing counties and the percent of the 1963 crop assessed on the first Monday in March, 1964. Some of this great variation in the percentage of the 1963 crop assessed in 1964 is probably due to a larger percentage of sales prior to assessment date in some counties than in others. The balance of the variation would be due to variation in assessment practices. Many of the counties reporting virtually none of this class of property are substantial producers of cash grain, and undoubtedly much of this property is on hand on assessment day. Obviously some counties assess this property quite fully, many not at all, and the balance apparently assess only that which is voluntarily reported.

There is apparently a difference of opinion among assessors as to whether this property should be assessed at all. This probably accounts for much of the great variation in the extent to which it is listed and for its having been placed in the seven percent taxable to assessed value percentage, where inequities in assessment are of less significance.

Full assessing of this class of property would involve not only determining the amount and value of products for sale held on the farm

but also the discovery of elevator storage in other counties and other states.

Table VII. Percentage of the Value of the 1963 Wheat Crop[1] Assessed in 1964 in 33 Montana Wheat Producing Counties.

COUNTY	TOTAL VALUE 1963 CROP MILLIONS OF $	% OF TOTAL VALUE OF 1963 CROP ASSESSED IN 1964
Big Horn	3.650	13.2
Blaine	3.562	7.1
Broadwater	1.293	9.8
Carbon	1.421	2.9
Cascade	5.736	42.0
Chouteau	13.554	21.7
Daniels	8.030	20.4
Dawson	5.284	20.0
Fallon	2.605	5.3
Fergus	8.038	11.5
Flathead	1.357	4.6
Gallatin	3.506	15.8
Garfield	1.462	7.4
Glacier	1.584	17.5
Hill	9.512	24.0
Judith Basin	3.856	9.9
Liberty	4.135	18.6
McCone	7.742	2.5
Park	1.018	.7
Phillips	4.779	13.8
Pondera	3.720	35.5
Powder River	1.311	5.2
Prairie	1.642	1.8
Richland	5.728	7.8
Roosevelt	10.715	12.5
Rosebud	1.172	.3
Sheridan	10.344	28.0
Stillwater	3.096	2.3
Teton	5.212	14.2
Toole	2.273	35.2
Valley	10.869	18.3
Wibaux	1.563	4.8
Yellowstone	4.512	10.6

[1]Volume X, Montana Agricultural Statistics, December 1964.

To the difficulty of uniform discovery of this type of property can be added other adverse characteristics. The economic effects of full

assessment of this property, if this were possible, would be undesirable if it interfered with orderly and economic marketing. The benefits to the owner of storing grain are usually small and could easily be offset by any substantial property tax.

If the Constitution would permit, rather than continue the farce of universal and uniform assessment, it would be better not to assess this class of property. Until the Constitution is changed it should be placed in a minimum taxable classification where the wide variation in treatment would be of less significance.

Solvent Credits:

Property in this class includes all credits collectable under normal business procedures without resort to the courts for enforcement. However, there are many kinds of solvent credits that are exempted from the Montana property tax either by the Montana Constitution or federal statute. A list of taxable and a list of exempt solvent credits follows:

Taxable solvent credits:

1. Bank deposits (taxable at domicile of depositor).
2. Stocks in corporations not owning property in Montana.
3. Bonds (municipal and corporate, exluding U. S. Bonds).
4. Cash value of insurance policies.
5. Money
6. Accounts receivable
7. Notes - not secured by mortgages.
8. Saving and building and loan deposits (taxable at domicile of depositor.

Non-taxable solvent credits:

1. Credits secured by mortgages on real and personal property.
2. Stocks in corporations with property in Montana.
3. Assets of banks other than capital.
4. Obligations of the United States government.
5. Shares in national banks not located in Montana.

In 1964 solvent credits assessed by county assessors made up .49 percent of the taxable value of the State. An additional .16 percent was turned in by public utilities. The taxable value of this class of property varies from virtual exemption (less than .01 percent of the tax base) in seven counties to over one percent of the tax base in three counties (see Table I).

Only a small proportion of this type of property has ever been assessed. When the 1919 Montana classification law was enacted,

solvent credits were placed in a seven percent class, either with the hope that a larger proportion of such property would be reported or to minimize the inequality resulting from inconsistent discovery. Most solvent credits reported and assessed are accounts receivable by businesses. County assessors report that because the individual reporting solvent credits is the exception rather than the rule they either do not list those reported or only list a small proportion of them.

Table VIII shows the variation in the solvent credits assessed per capita and as a percentage of agricultural income in sixteen agricultural counties with similar economies. While other factors could affect the amount of solvent credits in these counties, it appears that most of the variation is due to differences in assessment practices.

It is beyond the scope of this study, if not actually impossible, to determine the dollar value of taxable solvent credits in Montana. Added to the problem of discovering solvent credits is the difficulty of segregating the taxable from the non-taxable. An indication of the small proportion of solvent credits assessed may be gained by comparing the total assessed value of solvent credits in 1964 ($52,741,110) with total Montana bank, credit union and savings and loan deposits in 1964 ($979,117,350).

Table VIII. Comparison of Assessment of Solvent Credits Among Counties with Similar F rming and Ranching Economies.

ty	1963 Farm Receipts (Millions of Dollars)	1964 Estimated Population (Thousands)	Solvent Credits Assessed in 1964 per Capita	% of Solvent Credits Assessed in 1964 to 1963 Farm Receipts
eau	21.390	7.3	$ 66.93	2.28
els	11.188	3.8	169.90	5.77
ield	6.514	2.0	.05	.01
en Valley	2.632	1.2	74.50	3.40
erson	2.497	4.3	7.13	1.23
th Basin	7.807	3.1	92.99	3.69
her	4.042	2.6	17.02	1.09
ne	11.312	3.3	15.82	.46
oleum	2.590	.9	4.44	.15
lips	11.104	6.0	48.82	2.64
er River	6.135	2.5	3.94	.16
idan	15.067	6.5	237.35	10.24
t Grass	4.017	3.3	44.47	3.65
lwater	7.782	5.5	12.64	.89
sure	3.194	1.3	67.69	2.76
tland	3.142	3.0	.03	.01
hted Averages		3.54	67.01	3.15

ces of Information:
Receipts--Volumn X of Montana Agricultural Statistics.
lation--Current Economic Progress Report for Upper Midwest, 1964.
essment figures--1964 Assessors' Reports to State Board of Equalization.

The assessed value of solvent credits is usually their full cash value rather than less than half of full cash value as is the case with most other types of property. Hence, even though such credits are in the seven percent taxable to assessed value class, inequalities between the exceptional taxpayer who is assessed and the great bulk who are not, are significant. Probably the most significant aspect of the present situation is the fostering of contempt for and lack of confidence in the administration of the property tax when such unequal assessment is allowed to continue.

As part of the 1966 Montana Tax Study, inquiry has been made into the feasibility of accomplishing acceptable assessment of solvent credits by using interest and dividend income, as reported on income tax returns, as a way of discovering the existence of solvent credits. Such information is of limited value for the following reasons:

1. It would still be difficult if not impossible to segregate the taxable from the non-taxable credits.
2. Dividends and interest, even when from a taxable solvent credit, would not determine the market value of the solvent credit or whether it was in the possession of the taxpayer on the first Monday in March.
3. It would not help in discovering many solvent credits, from which no interest or dividends are received, such as money, checking deposits, accounts receivable, and cash value of insurance policies.

Even if all feasible sources of information were used the assessor would still be excessively dependent upon the unverifiable reports of taxpayers.

Another obstacle to effective and equitable taxation of solvent credits is the ease with which owners of such credits could shift from taxable to nontaxable solvent credits if those in taxable categories were assessed and taxed. Because of the large number of nontaxable categories of solvent credits, nearly every taxable type can be easily converted into a nontaxable type. A few examples should suffice to prove this point. All types of savings accounts could easily be converted into federal bonds without a decrease in interest rate. All stock ownership could be converted into stocks in corporations with enough taxed tangible property in Montana to qualify the stock as nontaxable. Even accounts receivable could be protected by a mortgage thus rendering them nontaxable. Thus, nearly all solvent credits could avoid the property tax--at the price of having the tax cause diversion of investments from one category to another--which would no doubt cause much economic dislocation and probably undesirable economic effects.

In view of the obstacles to acceptable assessment of this kind of property plus the adverse economic effects of full and uniform assessment it appears that the best solution to the problem would be a constitutional change that would permit the legislature to exempt this type of property from assessment. Until the Constitution is changed it would seem advisable for the legislature to put this class of property in a still lower taxable value class where unequal assessment would be insignificant.

Merchants' and Manufacturers' Inventories:

This class consists primarily of merchants' and manufacturers' inventories. The taxable value of this class of property is 33-1/3 percent of assessed value. The State Board of Equalization has directed county assessors to assess merchants' inventories at 66-2/3 percent of dealers cost.

This class makes up 3.66 percent of the taxable value of the State, and varies from a low of less than two percent in 29 counties to over six percent in Missoula County, and nearly 10 percent in Yellowstone County. No other county exceeded five percent (see Table I).

Almost without exception, assessments of this property are made up of inventories reported by merchants and manufacturers, unverified as to both quantity and value. The State Board of Equalization provides county assessors with forms for itemizing the inventories of some types of dealers and manufacturers. Except when these forms are used inventories are usually listed as a lump sum so that the assessor has no way to identify the individual items assessed, verify their number, or determine the value used on individual items to enable him to make comparisons between merchants or with known dealers' costs. Some checking of inventories could be done by checking merchants' books, but this is seldom done. Actually, since verification of inventories by assessors is so difficult and so seldom attempted, assessments vary as widely as the individuals who turn them in.

The problem is complicated by the fact the relationship between inventory value and net profit varies widely among different types of business and even among different businesses of the same type. Some businesses can arrange to have little or no inventory on the first Monday in March. Legislation authorizing assessment of an average inventory has been suggested to remedy this inequity, but while helpful this would only solve part of the problem. For example, a butcher may turn over his average inventory every week, while a hardware dealer turns his over every year. From an "ability to pay" standpoint serious inequalities would still exist if all merchants' inventories were assessed at a uniform proportion of full and true value. Recognition of these facts prompts assessors and taxpayers to attempt their own equalization, but probably with very unequal results.

In addition to the inequalities inherent in both current illegal or hypothetical full legal assessment of merchants' and manufacturers' inventories, consideration must also be given to possible adverse economic effects of full legal taxation of such property. Some possible adverse economic effects of heavy inventory taxation are:

1. Retail merchants may be deterred from stocking the economically optimum inventory, which would be undesirable for both the public and the merchant.
2. Merchandising and manufacturing may be discouraged in those businesses requiring heavy inventories.
3. If the inventory tax is shifted to consumers in the form of higher prices, it may have the effect of discouraging consumption of the taxed commodity.

Merchants' inventories are in the 33-1/3 percent taxable to assessed value class, so that inequalities in assessment are very significant. If the Constitution would permit, it would seem desirable to discontinue the assessment of merchants' inventories. Until such a time as the Constitution is changed, the taxable percentage of merchants' inventories could be lowered to a point where inequalities in assessment would not be significant.

Household Goods and Personal Effects:

In 1964 this class of personal property made up 1.91 percent of the total taxable value of the State. It varies in relative importance from a low of .4 percent in Fallon County and .6 percent in Wibaux County, to a high of 3.1 percent in Missoula County (see Table I). This variation in relative importance is affected by the numbers of households in the county in relation to the total county taxable value, the extent of discovery, and the level of values used by the assessor for both household goods and other classes of property. The assessed value per household varies from a low of $158.00 per household in Silver Bow County to a high of $584.00 in Liberty County (see Table IX). The State average per household was $379.00. There are nine counties under $250.00, and eight counties of $500.00. Since there is no apparent difference in the actual amount of this property per household among the counties it seems likely that the high counties are being assessed double the rate of the low counties on the same property. Evidently Liberty County taxpayers are assessed 3.7 times as heavily as those with the same property in Silver Bow County. Such obvious inequalities in assessment are very significant. Not only do they result in significant inequality in assessment and taxes among counties and among individuals, but they create a lack of confidence in and respect for the whole property tax program.

Some of the reasons for these widespread differences in the assessment of household goods are as follows:

1. Probably because they regard it as a violation of privacy. Assessors are reluctant and taxpayers resistant to the assessor actually going through the house and listing all taxable items for assessment. Almost no assessors in Montana follow such a practice. Thus, there is no practical way to check against listings turned in by each taxpayer.
2. In the minds of many taxpayers and assessors this type of property does not usually have earning power or taxpaying ability and therefore should not be taxed.
3. The assessor is an elected officer and there is a limit to the extent he can offend taxpayers and be reelected.
4. Since taxpayers are aware that other taxpayers are not fully listing household goods, there is a strong tendency for each to adjust his listing to a level at least low enough to be equitable as compared to other taxpayers. Since there is no practical check there is no deterrent to such a practice.

Table IX. Assessed Value of Household Goods Per Household in Montana by Counties, 1964*

County	Assessed Value per Household	County	Assessed Value per Household
Beaverhead	$ 507	McCone	$ 255
Big Horn	464	Meagher	349
Blaine	336	Mineral	200
Broadwater	539	Missoula	319
Carbon	375	Musselshell	351
Carter	400	Park	338
Cascade	373	Petroleum	580
Chouteau	467	Phillips	428
Custer	350	Pondera	503
Daniels	456	Powder River	480
Dawson	355	Powell	220
Deer Lodge	202	Prairie	451
Fallon	282	Ravalli	305
Fergus	481	Richland	226
Flathead	341	Roosevelt	327
Gallatin	234	Rosebud	489
Garfield	549	Sanders	307
Glacier	293	Sheridan	456
Golden Valley	458	Silver Bow	158
Granite	321	Stillwater	515
Hill	339	Sweet Grass	548
Jefferson	236	Teton	437
Judith Basin	489	Toole	412
Lake	325	Treasure	408
Lewis and Clark	332	Valley	415
Liberty	584	Wheatland	298
Lincoln	215	Wibaux	376
Madison	384	Yellowstone	363

*Data from the Biennial Report of the Montana State Board of Equalization, June 1964.

5. Some assessors require household items to be listed separately on a sworn affidavit while others list household goods as a lump sum. Separate listing by make and model (in the case of household appliances) is probably conducive to more complete assessment.

6. While property taxes paid on much personal property are deductible from gross income for income tax purposes, taxes on household goods come out of net income.

7. There is widespread but variable belief among assessors (a) that household goods should not be taxed regardless of the problem of assessment and/or (b) that it is a practical impossibility to get an equitable

assessment of this class of property either within a county or among counties. Therefore there is a wide variation in the effort made to get a full listing and valuation of this kind of property.

8. Used household goods depreciate rapidly. There is not a well-established market price either from rental or sale. Thus a proper assessed value for many items is hard to establish.

9. Household goods are of great variety and not easily standardized and classified for assessment purposes.

10. Assessors, to various degrees, adjust listings upward and downward according to what they believe to be a proper level of assessment. Since their prejudices and motives differ, the levels of assessment differ.

11. Some assessors are more inclined than others to try to comply with the law that requires that all property be assessed.

The overriding fact preventing uniform assessment of household goods is the impracticality of uniform discovery and valuation by the assessor. Also any attempt to assess all household goods would be relatively expensive in comparison to the added tax revenue that might be collected. Another consideration is that in no county is household goods a large enough part of the tax base to seriously disrupt local financing if no taxes were collected from this source.

In view of the present inequalities in the assessment of household goods and in view of the above considerations, it would seem reasonable to explore ways by which the assessment of this type of property could be eliminated. The major obstacle to such a change is the consitutional requirement that all such property be assessed. The ideal procedure would be to amend the Constitution leaving the decision to the legislature on what property to tax. Until such time as the Constitution can be changed the legislature could lower the taxable percentage class of this property to a level where inequalities in assessment would not be significant and it would make no practical difference if it were assessed or not.

COMPARATIVE EVALUATION OF KINDS OF PERSONAL PROPERTY FOR PROPERTY TAXATION

Table X shows the different kinds of personal property as now classified for taxation rated by their suitability for property taxation judged separately on nine different factors.[6] Each kind of property is rated 10 to 100 to indicate whether it rates low or high on a single basis of evaluation. The average rating and rank was then determined. The eight factors with some descriptions of each are as follows:

1. Ease of discovery refers to the relative difficulty encountered by the assessor of finding all of a given kind of property in his county.

2. Ease of describing refers to whether the property can be listed and described so that its existence and quantity can be verified and a value related to it by the assessor. The size, adaptability to classification, and number of individual items to be assessed affect the rating of each kind of property on this factor. Property must be adapted to classification and description in order to verify a listing and compare one taxpayer with another.

3. Ease of valuation relates to the number of individual items to be assessed, adaptability to classification, ease of determining quantity, the existence of a market to establish a value that can be related to the individual items to be assessed, and the availability of valuation data and schedules.

4. Economic effects is concerned with whether the tax would discourage optimum allocation of resources. For example, full legal taxation of merchants' and manufacturers' inventories in some lines of business might either force some firms out of business or cause them to carry a smaller inventory than is economically optimum from the standpoint of either the firm or the public; or full legal taxation of household goods might cause people to spend for non-durable goods and services rather than durable household goods which would actually give them greater satisfaction.

5. Ability to pay is a measure of the extent to which the value of different kinds of personal property owned by a taxpayer is an indication of his relative ability to pay.

6. Benefits received is a measure of the extent to which the amount of each kind of personal property owned is proportional to the benefits its owner receives from public expenditure.

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6 The rating was computed by three members of the staff of the State Board of Equalization on the basis of their own extensive experience plus interviews with many county assessors. The ratings assume as much budget for assessing purposes as is compatible with administrative efficiency within the expectable legal and attainable administrative framework.

Table X. Suitability of Different Kinds of Personal Property for Property Taxation.

Kind of Personal Property	Percentage Rating on Various Factors Affecting Suitability**											
	Administrative Considerations				Other Considerations							
	Ease of Discovery	Ease of Description and Verification	Ease of Valuation	Administrative Rating	Economic Effects	Ability to Pay	Benefits Received	Efficiency of Administration	Public Acceptance	Revenue Potential *	Rating	Rank
Motor Vehicles	100	90	90	93	100	100	100	100	100	90	97	1
Bank Stock and Capital	100	100	100	100	100	100	50	100	100	12	85	2
Livestock	80	90	100	90	90	70	50	80	90	50	78	3
Aircraft and Watercraft	80	70	70	73	100	100	80	100	90	2	77	4
Farm Machinery	60	70	70	67	70	70	50	70	80	34	64	5
Oil Drilling Rigs	70	50	50	57	80	80	50	80	90	3	61	6
Manufacturing Machinery	80	30	30	47	80	80	50	70	90	20	59	7
Furn. of Stores & Offices	70	50	30	50	70	70	50	40	80	10	52	8
Mining Machinery	50	30	40	37	80	80	50	50	90	7	51	9
Machinery Not Farm or Mfg.	40	40	40	40	80	80	50	50	60	10	50	10
Agricultural Products	30	80	100	70	30	70	20	20	50	10	46	11
Solvent Credits	10	90	100	66	10	100	40	10	20	20	44	12
Merchants' Inventories	50	10	30	30	10	30	50	20	90	32	36	13
Household Goods	20	20	20	20	30	70	30	20	10	28	28	14

* Based on the ratio of the 1964 assessed value of each kind of property to the total assessed value of the State.

** The rating was computed by three members of the staff of the State Board of Equalization on the basis of their own extensive experience plus interviews with many county assessors. The ratings assume as much budget for assessing purposes as is compatible with administrative efficiency within the expectable

7. Efficiency of Administration is a measure of the cost of assessment as compared to the potential revenue from each kind of personal property.

8. Public acceptance refers to the extent to which the public and assessors seem to feel that each type of personal property ought to be taxed. This acceptance seems to be related to apparent ability to pay for or benefits received from public expenditure. Thus motor vehicles rank high in public acceptance for taxation both because a valuable automobile or truck appears to indicate ability to pay and they receive special benefits from government in the form of highways and traffic control. Likewise, all kinds of production equipment rank high because they produce income, giving them apparent ability to pay. Also, the cost of owning such equipment is deductible for computing income taxes. On the other hand household furniture rates low in public acceptance for taxation apparently because it produces no cash income, receives no special benefits from government, and its assessment is regarded as somewhat of an invasion of privacy.

9. Revenue potential is a rating of the different kinds of personal property according to the percentage that each makes of the total assessed valuation of the State. Assessed value rather than taxable value is used for this rating because being more nearly proportional to full value it represents the potential taxes from each type of property if taxes were levied upon the same percentage of the market value of all personal property. This rating is presented with the thought that if it seemed desirable to discontinue the assessment of some types of personal property, those with a relatively small revenue potential could be eliminated with less loss of revenue.

The percentages that the taxable value of each kind of personal property makes of the total state taxable value is shown at the bottom of Table I.

A study of Table X shows that rated both on such administrative considerations as ease of discovery, ease of description and verification, and ease of valuation, and such other considerations as economic effects, ability to pay, benefits received, efficiency of administration, public acceptance, and revenue potential, motor vehicles seem to be the most suitable to property taxation. Motor vehicles are followed by bank stock and moneyed capital, livestock, aircraft and watercraft, farm machinery, oil drilling rigs, manufacturing machinery, furnishings in stores and offices, mining machinery and machinery other than farm or manufacturing machinery rated in the order listed for reasons indicated in Table X and in the foregoing discussion of each type of personal property.

The last four items on the list, namely agricultural products, solvent credits, merchants' inventories and household furniture, are regarded as the least suitable for property taxation. As is indicated in the foregoing text, they are assessed very inequitably both among different counties and different taxpayers, and because of the obstacles to good assessment of these properties there seems

little hope for adequate improvement. Moreover, the economic effects of full assessment of these properties, even if this were possible might be more undesirable than would result from raising the equivalent revenue in any one of several other ways.

The combined taxable value of these four kinds of personal property is 6.3 percent of the total taxable value of the State. Merchants' inventories accounting for 3.66 percent of the State's total taxable value is by far the most important of these four kinds of property from a revenue standpoint and its exemption from taxation would have considerable impact in some counties (see Table I). Nevertheless, in view of the unavoidable inequities and the undesirable economic effects of the property tax on this class of property, its exemption is recommended.

Since the Montana Constitution requires that all property be taxed, until the Constitution can be changed the legislature should consider placing these properties in a zero percent class and thereby relieve assessors of the duty of making a gesture toward assessing them. Such a procedure would add nothing to the present farce and would add much to the equitability and ease of administration of the personal property tax.

THE MONTANA PROPERTY CLASSIFICATION LAW

Classes of Property and Taxable Percentages:

The 1919 Montana property classification law, as amended up to 1965, places property in classes and taxes are levied on different percentages of the assessed value of each class as follows:

Class	Percent Taxable		Kinds of Property Included
One	100	(a)	Net proceeds and royalties of mines and oil wells.
		(b)	Patented Mining Claims.
		(c)	Rights of entry for digging and exploring.
		(d)	Royalty interests in oil wells.
Two	20	(a)	Household goods and furniture.
		(b)	Agricultural machinery and equipment.
		(c)	Machinery not agricultural or manufacturing.
		(d)	Motor vehicles (cars, trucks and trailers) owned by users.
		(e)	Aircraft.
		(f)	Water craft.
Three	33-1/3	(a)	All livestock and poultry.
		(b)	Stocks of merchandise (merchants' inventories).
		(c)	Furniture and fixtures of stores, offices, hotels, etc.

Four	30	(a)	All real estate and improvements.
		(b)	Manufacturing machinery.
		(c)	Mining machinery.
		(d)	Bank capital (less building and surplus up to stated capital)
		(e)	Supplies of all kinds.
Five	7	(a)	Solvent credits.
		(b)	Bank surplus up to stated capital.
		(c)	Rural electrification and telephone association property.
		(d)	Agricultural products <u>not</u> livestock for sale.
Six			(Eliminated by Section 84-308, Revised Codes of Montana, 1947.)
Seven	7	(a)	New industry for first three years of operation.
Eight	20	(a)	Certain qualifying residences.
Nine	40	(a)	Intercounty property of utilities and railroads allocated by the State Board of Equalization
		(b)	All property not enumerated in the preceding classes.

<u>Administrative Weaknesses of the Montana Classification Law</u>:

The Montana Legislative Council has made two studies of the Montana Property Classification Law.[7] Report No. 16 summarizes the reasons for the original enactment of the 1919 act as follows:

> "Apparently, the 1919 classification law was, in part: (1) a legalization of the existing extra-legal classification of property; (2) an attempt to distinguish between income, and non-income producing property; (3) an attempt to increase tax collections on intangible personal property through a low rate of taxation; and (4) an attempt to tax the mining industry more heavily. The law did not increase tax collections on intangible personal property, and the total impact of the classification law on the tax burden seems to have been slight."

Report No. 6 recommended as follows:

> "The Council believes that a future legislative assembly should seriously consider the whole question of the classification law. The various classes are not necessarily based on any consistent principle of discrimination. The classification law increases clerical work for those who administer the

7 Montana Legislative Council Report No. 6, <u>Property Taxes in Montana</u>, December 1960, pp. 12-20.

Montana Legislative Council Report No. 16, <u>Property Taxation and the Montana Property Classification Law</u>, December 1964, pp. 1-16.

property tax and confuses property taxpayers. The existence of the law is a temptation to interest groups to reduce their property tax load by securing a more favorable classification from the legislature. However, the Council does not recommend repeal at this time. . . . Better assessment and equalization ought to be the first goal."

Conclusions drawn from further study of the classification law, in conjunction with the 1965 Montana Tax Study, agree for the most part with those cited above, with one possible exception. The first criticism of the law that "the various classes are not necessarily based on any consistent principle of discrimination," while true because of the insertion of the word "necessarily," may be misleading. Actually there are some plausible reasons for the different percentages of assessed value taxed. Some of the credible justifications for taxing different kinds of property on a different percent of assessed value follow:

1. The assessed values of different kinds of property do not have the same relationship to "ability to pay" which seems to be the most widely accepted measure of equity. For example, all kinds of solvent credits and bank capital, along with cash grain, when assessed, are assessed at full face value as compared to forty percent level common to many other types of property. However, because of the difficulty of discovery, most solvent credits and cash grain are missed. Probably, for one or a combination of the above reasons, these kinds of property are in the seven percent taxable class. To place them in a higher class would only increase the degree of inequity.

2. Some kinds of property, assessed at levels comparable with other property, are held to have less taxpaying ability. Most of the property in the 20 percent class is often included in this group. Household furniture and a personal motor vehicle is said to be an expense not compensated by income and not deductible from income taxes as are business expenses. It is argued that farm machinery should be in the 20 percent class rather than 30 percent as manufacturing machinery because farming is a seasonal business and much farm machinery is in use for only a few days a year.

On the other hand, there is no apparent reason why livestock, merchants' inventories, and furniture and fixtures of stores and offices is in a 33 1/3 percent class rather than the 30 percent class along with other production property.

That the classification law increases clerical work for those who administer the property tax, as Report No. 6 states, is quite true. It not only increases the amount of work but frequently the complexity of the work and quite likely the inequities. The same piece of equipment in the hands of different owners is sometimes classified differently. Also the same equipment used for different purposes, although both uses may be continuous, may be classified differently, There is little apparent evidence that "machinery not

farm or manufacturing" should be taxable on 20 percent of assessed value rather than 30 percent with manufacturing machinery.

That "the existence of the law is a temptation to interest groups to reduce their property tax load by securing a more favorable classification from the legislature" is undeniable. Rural electrification association partisans, and bankers in the case of "bank surplus," have been successful in securing legislation placing their property in the seven percent class. Livestock growers have attempted without success to have livestock lowered from the 33 1/3 percent class.

Regardless of the merits of the arguments in these cases it is obvious that there is continuous danger of having tax treatment dependent upon political effectiveness.

SUGGESTED PROPERTY CLASSIFICATION CHANGES

As has been pointed out there are several kinds of personal property which are very difficult to assess equitably under any circumstances. There are some classification changes indicated that are more significant from an administrative standpoint than from a tax redistribution standpoint. Some changes in these areas seem imperative to acceptable property tax administration. It does not seem desirable to jeopardize recommendations with primarily administrative significance by combining them with recommendations having primarily tax redistribution significance. This is especially true since the former seems reasonably conclusive, while the latter are both inconclusive and subject to much political partisanship.

For the above reasons, the suggestions submitted here are limited to changes in classification and exemptions of some types of personal property with the aim of achieving the maximum improvement in assessment within kinds of property with a minimum of redistribution of tax burden among kinds of property. The reasons for considering the suggested changes are discussed more fully earlier in this paper. The suggested changes with a summary of the reasons, and the tax redistribution effects are as follows (see Table XI).

Motor Vehicles:

It is recommended that all motor vehicles be taxable at 30 percent of assessed value and that proof of taxes paid be a requirement of securing all license plates. All motor vehicles in a dealer's stock and all those entering the State after the January 1 assessment date should be required to pay the property tax only for the fraction of the year for which they are licensed. This is a change from the present law in the following respects:

1. Instead of motor vehicles in a dealer's stock on January 1 being taxed on 33 1/3 percent, and all used motor vehicles in the hands of users on 20 percent of assessed value, all motor vehicles

Table XI. Suggested Changes in Percentage Taxable to Assessed Value on Different Kinds of Personal Property.

Kind of Personal Property	1964 Taxable Percent	1964 Taxable Value	Suggestion Taxable Percent	Suggestion Taxable Value*
Motor Vehicles Owned by Dealers	33 1/3	1,277,344	Exempt	---
Owned by Users	20	44,981,655	30	68,622,208
Livestock	33 1/3	43,045,183	30	38,744,540
Aircraft	20	776,064	30	1,164,096
Watercraft	20	507,450	30	761,175
Farm Machinery	20	17,458,436	30	26,187,653
Furnishings of Stores & offices	33 1/3	8,926,363	30	8,034,530
Machinery not Farm or Mfg.	20	5,661,309	30	8,491,963
Bank Stock less equipment	30	9,386,647	Same 30	9,386,647
Bank surplus up to stock	7	1,856,808	Same 7	1,856,808
Oil Drilling Rigs	30	2,564,412	Same 30	2,564,412
Manufacturing Machinery	30	16,023,137	Same 30	16,023,137
Mining Machinery	30	5,584,110	Same 30	5,584,110
Agricultural Products for sale	7	1,801,351	Exempt	---
Solvent Credits	7	3,691,878	Exempt	---
Merchants' Inventories	33 1/3	27,805,112	Exempt	---
Household Goods	20	14,480,620	Exempt	---
TOTALS		205,827,879		187,421,279

* Taxable value based on 1964 assessed values.

**The defense of the suggested exemptions rests on the impracticability of accomplishing reasonable uniformity of assessment which in turn in some instances is the result of the manifest undesirable economic effects of full legal assessment. Hence, even though from an equity standpoint, livestock might seem to deserve exemption along with merchants and manufacturers inventories, their exemption is not recommended because they can be assessed uniformly, and full legal assessment at present levels does not seem to produce uneconomic allocation of resources.

would be taxed on 30 percent of assessed value, and proof of payment of all taxes due would be required prior to issuance of license.

2. Motor vehicles entering the State through a dealer, as well as those entering the State in the hands of a user, after January 1 would be taxed for the part of the year for which they secured a license.

3. If the present new car sales tax were continued, it would be in addition to, rather than in lieu of, the property tax.

The present law results in many inequities through possible evasion and avoidance of property taxes. Administration would be simplified and greater equality of treatment accomplished by the suggested change. Much needed additional revenue that could be used for the building and maintenance of county roads and city streets for the benefit of car owners would be realized.

Livestock and Furniture and Fixtures of Stores and Offices:

There is no apparent reason for taxing these classes of personal property on a higher percentage of assessed value than other types of property used in production. Therefore, it is suggested that these classes should be taxed on 30 percent of assessed value rather than 33 1/3 percent as is now the case.

Agricultural Products, Solvent Credits, Merchants' Inventories, Household Goods and Personal Effects:

Study of attempts to tax these types of personal property in Montana and other states indicates that they are not now assessed with an acceptable degree of equity, and that it is impractical, if not impossible, to tax them equitably. Therefore, it is suggested that steps be taken to exempt these items from property taxation.

These four classes of property make up only 6.3 percent of the taxable value of the State; hence, the problem of replacing the lost revenue would not be insurmountable. Solvent credits and agricultural products held for sale account for only .49 and .24 percent, respectively, of the State total taxable value. Household furniture and merchants' inventories with 1.91 and 3.66 percent, respectively, of the State's total taxable value are more important sources of revenue, but the arguments for their exemption seem preponderant.

Aircraft and Watercraft, Farm Machinery, Machinery Other Than Farm or Manufacturing:

It is suggested that these kinds of property be placed in the 30 percent taxable to assessed value class, along with all other tangible personal property. The arguments for treating them differently are not conclusive, and uniform treatment with other taxable

personal property would simplify administration. Also, taxing at a higher percentage would justify a greater effort toward good assessment.

Fiscal and Tax Redistribution Effects of Suggested Taxable Percentage Changes:

Table XII shows the loss in taxable valuation by counties of exempting household goods, solvent credits, agricultural products, and merchandise based on 1964 assessments.

However, the overall fiscal result of the foregoing suggested changes, including the changes in percent taxable classifications, would reduce the total taxable value of the State by only 2.4 percent. If acceptable standards of uniformity in discovery and valuation were attained on those kinds of personal property assessed, the overall fiscal effect of the statutory changes suggested herein would be an increase in revenue rather than a decrease. The principal gain would be the elimination of four classes of property that are certainly difficult, of not impossible, and possibly undesirable, to assess. Also, all tangible personal property would be placed in a common 30 percent class, along with real estate, thereby eliminating the seriousness of the occasional problems of distinguishing between some types of personal property and real estate. It seems likely that, even if the lost revenue, if any, were made up by higher levies on other property, the overall effect would be greater equity through improved equality in assessment.

The greatest single effect of the change would be to shift some tax burden from merchants and manufacturers to automobile owners. In reality there might not be much shift in final incidence, since nearly all property taxpayers own an automobile, and merchants are probably by necessity shifting most of the inventory tax to the general public. Also, automobile owners would be compensated by not being required to pay taxes on their household goods.

The other major increase in burden would be on farm machinery. This would be compensated, at least in part, by the exemption of household goods owned by farmers, and agricultural products held for sale and by a slight reduction in the taxable value of livestock. Farmers would also benefit to the extent that the exemption of merchants inventories was reflected in lower prices for articles they buy.

Table XII. Loss in Taxable Valuation Resulting From Proposed Exemptions by Counties and State Totals - 1964.

nty	Household Goods	Solvent Credits	Agricultural Products	Merchandise	Total	Percent Loss
verhead	239,328	45,105	2,093	296,878	583,404	5,28
Horn	241,940	24,140	33,706	412,394	712,180	5.63
ine	153,853	24,949	17,721	153,528	350,051	4.15
adwater	81,100	11,130	8,862	62,989	164,081	3.45
bon	195,071	8,411	2,927	158,669	365,078	2.12
ter	62,392	2,431	993	60,829	126,645	2.78
cade	1,547,855	886,956	168,684	3,422,109	6,025,604	8.81
uteau	214,333	38,580	206,205	207,606	666,724	4.12
ter	303,824	44,834	79	453,956	802,693	6.54
iels	107,126	45,549	114,629	154,547	421,851	8.93
son	286,601	19,139	73,854	674,944	1,054,538	6.78
r Lodge	223,160	83,598	---	302,653	609,411	4.81
lon	70,540	2,849	9,562	143,304	226,255	1.25
gus	442,624	39,407	64,949	497,381	1,044,361	5.92
thead	732,015	182,407	4,365	1,050,267	1,969,054	5,97
latin	400,666	55,924	38,810	866,158	1,361,558	5.71
field	67,987	7	7,566	36,658	112,218	2.53
cier	120,196	15,389	19,381	473,680	628,646	4.47
den Valley	34,466	6,258	2,719	17,480	60,923	2.08
nite	60,382	9,760	---	53,393	123,535	2.71
l	434,285	103,040	159,908	639,640	1,336,873	7.72
ferson	63,463	5,725	---	79,797	148,985	2.77
ith Basin	94,328	23,270	26,642	98,430	242,670	3.13
e	205,440	1,050	---	271,833	478,323	3.96
is & Clark	696,829	298,877	225	1,212,148	2,208,079	7.61
erty	95,701	4,795	53,850	103,290	257,636	4.06
coln	176,970	28,747	---	473,589	679,306	6.52
ison	125,100	12,198	748	105,870	243,916	3.30
one	52,934	3,655	13,722	53,924	124,235	2.46
gher	57,054	4,990	191	107,940	170,175	3,82
eral	38,009	3,096	---	75,142	116,247	3.34
soula	980,840	451,711	---	2,231,196	3,663,747	11.46
selshell	107,134	3,340	2,747	140,793	254,014	3.51
k	291,832	33,113	485	306,103	631,533	5.07
roleum	32,398	280	---	19,130	51,808	2.79
llips	169,320	22,941	46,246	229,109	467,616	4,78
dera	252,746	22,022	92,463	336,455	703,686	6.08
der River	74,528	10,137	4,789	56,063	145,517	3.40
ell	98,397	21,437	---	110,548	230,382	2.83
irie	65,402	8,698	2,033	113,520	189,653	4,27
alli	240,246	8,792	23	241,239	490,300	5.04
hland	152,649	15,444	31,380	620,014	819,487	6.66
sevelt	219,153	44,507	93,381	358,922	715,963	4.52
ebud	189,042	18,175	206	114,524	321,947	2.60
ders	135,790	4,777	---	225,104	365,671	3.32

Table XII. (Continued from page 50.)

ounty	Household Goods	Solvent Credits	Agricultural Products	Merchandise	Total	Percent Loss
heridan	184,116	108,125	202,356	207,434	702,031	7.34
ilver Bow	458,630	644,047	---	1,543,598	2,646,275	7.71
tillwater	177,860	6,296	4,865	127,258	316,279	4.18
weet Grass	112,753	11,720	---	107,647	232,120	4,20
eton	199,361	50,606	51,660	248,553	550,180	4.47
oole	203,709	33,866	56,058	242,788	536,421	4.60
reasure	34,330	6,160	---	28,040	68,530	3.16
alley	365,445	75,847	139,019	532,473	1,112,784	7.29
heatland	56,425	2,360	4,264	72,173	135,222	3.11
ibaux	39,910	648	5,205	53,090	98,853	1.44
ellowstone	1,973,367	1,096,652	33,303	8,198,220	11,301,542	14.03
tate	14,440,955	4,737,967	1,802,874	29,185,020	50,166,816	

ate from the Biennial Report of the Montana State Board of Education, June 1964.

METHODS OF IMPROVING THE ASSESSMENT PROCESS

The Need for Improved Assessments:

The assessment process is constantly in the need of improvement. This is true, not only in Montana, but in all states. Some of the reasons for the need for changed and improved standards are:

1. The increase in the amount, variety and value of property to be assessed.

2. The increased rate of property taxes per dollar of assessed valuation, which increases the significance of unequal assessment.

3. The ever-present difficulty of the task of discovering, enumerating and valuing all taxable property.

The Montana Constitution requires that assessors be elected and provides for no other qualifications except those required for suffrage. The complex nature of the assessment process requires qualities that only natural ability, training and experience can provide. The demonstrated prevalence of inadequate assessment procedures indicates that steps should be taken to upgrade the assessment process.

Advantages of State Assessment:

Many students of taxation agree that improved assessment could best be accomplished by shifting the assessment function to the state level. The advantages of state level assessment are:

1. Specialization and therefore more complete professionalization in the assessment of different kinds of property.

2. Large, complex, industrial properties in all counties could be assessed by the same person, thus gaining greater uniformity.

3. Uniform methods of discovery and valuation could be used in all counties.

4. Time, money and labor-saving procedures, including the use of automatic data processing, could be used more fully.

5. Assessors would be less subject to pressure from taxpayers.

Obstacles to State Assessment:

In spite of the apparent advantages of state-level assessment, there are formidable obstacles to the early acceptance of such a program in Montana. Two of these are:

1. The county assessor is a constitutional office, thus elimination of the office, or shifting the duties entirely to the state level, would require a change in the Constitution.

2. The political resistance to entirely shifting assessment authority from the county to the state level might be overwhelming.

Because of these and possibly other considerations, some means of upgrading the assessment process, within present constitutional limitations and politically acceptable bounds, is needed.

Assessment Functions of the State Board of Equalization:

In view of the legal and political situation in Montana, and judging by the trend in other states, the solution is in an adequate joint state-county program for improved assessment.

The Advisory Commission on Intergovernmental Relations[8] sets forth the duties of the state agency in such a relationship. These are:

1. Fact finding and analysis as a means of knowing the problem.

2. Providing or helping to provide certain assessing tools.

3. Supplying professional and technical services.

4. Aiding in the training and orientation of assessors.

The Montana State Board of Equalization has expanded its program in the first three of these areas during recent years. A department of research was established in 1964. Since the implementation of the 1957 Reclassification Act, three fieldmen have been employed to provide professional and technical assistance to the counties in land classification and grading, in the appraisal of land and buildings, and in the administration of county assessor offices. Such assessing tools as valuation schedules, assessors' guide books, and appraisal manuals have been or are currently being made available.

In the training and orientation of assessors, and in requiring suitable qualifications of assessors, Montana seems to have lagged behind other states. The extensive training and qualifications required of assessors in many states attests to both the technical requirements of the office and the general recognition of the compelling need for better qualified assessors.

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8 The Role of the States in Strengthening the Property Tax, Vol. 1, Advisory Commission on Intergovernmental Relations, June 1963, p. 124.

> "In Virginia, the school sponsored jointly by the university and state association of assessing officers has developed a 5-year course divided into five parts, the last three for the more advanced personnel. In the annual school held at the University of Minnesota a written examination was initiated in 1960, with a plan to designate as senior assessor any assessor who passed three annual tests. * * * In Oregon the requirement that all real property must be assessed by appraisers with state certified qualifications has permitted increasing sophistication of the program for the annual appraisal school conducted jointly by the State Tax Commission and Oregon State University."[9]

A legislative proposal for the qualification and certification of tax assessors was introduced in the 1964 New Jersey legislature.[10] In general outline the qualifications listed in the bill were as follows:

1. A high school education or its equivalent.

2. Satisfactory completion of an examination covering the subjects of:

   (a) Property Tax Administration
   (b) Real Estate Appraising
   (c) Arithmetic
   (d) Principles of Accounting
   (e) Principles of Statistics
   (f) Map Drawing and Reading
   (g) Real Estate Law

The 1964 Montana Legislature enacted legislation (Section 84-708, R.C.M. 1947) requiring that the State Board of Equalization hold a school for assessors and appraisers when deemed necessary and provided that it is the duty of the county assessors and appraisers to attend. The first such school will be held in the Spring of 1966. This is a beginning, but provides little assurance of rapid advance in the competence of county assessors and appraisers. Two weaknesses of the present statute are (a) there is no way to compel attendance and (b) there is no assurance that those attending will have either the ability or the will to learn assessment techniques. There is also the question whether salaries now being paid to assessors and classifiers are sufficient to draw people of the ability and training needed (see Table XIII).

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9 The Role of the States in Strengthening the Property Tax, Vol. 1, Advisory Commission on Intergovernmental Relations, June 1963, p. 123.

10 Qualified Tax Assessors for New Jersey, Division of Taxation, Department of the Treasury, Trenton, New Jersey, October 1964, p. 11.

Table XIII. Montana Counties Classified by 1962 Assessors Salary Schedule.

		Valley		
		Toole		
Wibaux		Teton		
Wheatland		Roosevelt		
Treasure		Richland		
Sweet Grass		Ravalli		
Prairie		Pondera		
Powder River		Park		
Petroleum		Lincoln		
Mineral	Stillwater	Lake		
Meagher	Sheridan	Hill		
McCone	Sanders	Glacier		
Liberty	Rosebud	Fergus		
Jefferson	Powell	Deer Lodge		
Granite	Phillips	Dawson		
Golden Valley	Musselshell	Custer	Silver Bow	
Garfield	Madison	Chouteau	Missoula	
Daniels	Judith Basin	Carbon	Lewis & Clark	
Carter	Fallon	Blaine	Gallatin	Yellowstone
Broadwater	Beaverhead	Big Horn	Flathead	Cascade
$3500 to $4000	$4000 to $4500	$4500 to $5000	$5000 to $5500	$5500 and Over

Qualification Requirements for County Assessors:

The Montana Constitution provides that the legislature may set up reasonable qualifications for persons to be eligible to hold county office.[11] This has already been done in the case of the offices of county attorney and county superintendent of schools. Satisfactory execution of the duties of assessor requires equally demanding qualifications obtainable only through education and experience. To accomplish needed improvement in assessments, legislation is needed requiring county assessors to pass examinations proving that they understand practical, uniform and effective assessing procedures. To make such legislation politically acceptable, and to allow time to train and qualify sufficient personnel, those assessors now holding office could be automatically qualified at least during their current term of office. Assessors might be required to pass the required examination in order to be elibigle for a second term.

11 Section 5 of Article XVI states that "There shall be elected in each county the following county officers ... (the list includes an assessor) who shall possess the qualifications for suffrage prescribed by section 2 of article IX of this constitution and such other qualifications as may be prescribed by law." (Emphasis supplied)

Training Program for Assessors and Classifiers Needed:

Three steps are required to upgrade assessing personnel. These are (a) adequate qualification requirements, (b) adequate salaries and (c) an adequate training program. To be effective these steps need to be taken simultaneously. Qualification requirements cannot be enforced until sufficient qualified personnel are available. Also There is little to be gained by offering higher salaries until qualified personnel are available. At the same time training programs will not be fully effective until actual competence as determined by written examination is made a condition for continued employment.

The training program should fit the qualification requirements and should be available both to incumbent assessors and classifiers and to persons interested in entering this type of work. Much of the preparation for the examinations could be done at home. Schools on the scope provided for in existing legislation should be sufficient preparation for appropriate examinations.

Tenure of County Assessors:

In the 1963 election, 23 out of the 56 Montana Assessors were newly elected to office. While this is an unusually high number for a single election, it serves to illustrate the high rate of turnover of assessors.

Tenure of county assessors is of significance from two standpoints:

1. The high rate of turnover with relatively untrained and inexperienced persons taking office necessitates a continuing training program.

2. Reasonable stability in tenure of office will be necessary, along with adequate salaries, to attract and hold personnel with proper ability, training and experience.

Qualification requirements, besides assuring minimum standards of training and experience, even in conjunction with election as the method of selection, should help stabilize tenure of assessors by limiting the field to people who intend to make a career of assessing and who are able and willing to meet the qualifications.

CONCLUSIONS

1. To protect the integrity of the property tax in Montana, tax laws and tax administration should be such that all persons in like circumstances are assessed alike.

2. To accomplish the above aim, tax administration should be as efficient as is compatible with democratic principles, and available personnel and assessing techniques.

3. Within the above guidelines, Montana tax laws should be rewritten to exclude all features that:

(a) are impossible to administer as written,
(b) whose effective administration would be economically intolerable,
(c) which force administrators to condone evasion, and
(d) which encourage taxpayer dishonesty.

4. Uniform discovery and valuation of some kinds of personal property is the major unsolved property tax assessment problem in Montana.

5. Because of the difficulties of uniform assessment of personal property, generally, and because of the undesirable economic effects of taxing some kinds of personal property, Montana should have a long-range goal of eliminating the taxation of most kinds of personal property.

6. Acceptable uniformity and equity of assessment is never achieved on those kinds of personal property where the amount and nature of the property is impossible or impractical to verify by the assessor.

7. Agricultural products held for sale other than livestock, solvent credits, merchants' inventories, and household goods and personal effects should be exempt from property taxation because the achievement of acceptable standards of assessment of these kinds of property are either improbable, impossible or undesirable.

8. If the above kinds of personal property were exempt from property taxation, and all other tangible personal property were placed in a common 30 percent taxable to assessed value class, the results would be: (a) only a 2.4 percent loss in total taxable value based on 1964 assessments, (b) much improvement in the equality of assessment and the ease of administration of the personal property tax and (c) no unreasonable net shift in property tax burdens.

9. To make it possible for the legislature and Governor to improve property tax administration by eliminating from the property tax structure those kinds of personal property that cannot be assessed with acceptable uniformity and equity, or which in the best interests of the economy of the State should not be assessed, the categorical

requirement that all property held for private use or gain be subject to the property tax should be removed from the State Constitution.

10. Legislation could and should be enacted that would require county assessors to have reasonable qualifications to be eligible to hold office.